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## **The MPC cut the policy rate to 1%, ahead of market expectations: signals a prolonged low-rate stance, with further easing conditional on downside risk.**

The MPC voted 4 to 2 to cut the policy rate from 1.25% to 1.0%, citing the need to ease financial conditions, relieve SME and household debt burdens, anchor medium-term inflation expectations, and support business adaptation amid a shifting global order. Meanwhile, the two dissenting members voted to maintain the policy rate, viewing the 1.25% level as already appropriate for prevailing economic and financial conditions.

Overall, the MPC views the policy rate at 1% as sufficient and consistent with the economic outlook. In this meeting, the committee placed greater emphasis on medium-term financial stability risks associated with a low-interest rate environment and the need to preserve remaining policy space under elevated uncertainty. It reiterated that structural problems require a policy mix and cannot be resolved by policy interest rate alone.

## **The MPC views the Thai economy as fragile, with inflation facing downside risks.**

- **The MPC assesses that the Thai economy is likely to expand more than previously projected, but will still remain significantly below its potential.** Growth is expected at around 2.0%YOY in 2026 and 2027, meaningfully below the BOT's estimated potential growth rate of 2.7%YOY, with a clearly K-shaped recovery pattern. SME growth is expected to remain below pre-COVID-19 levels, while labor income growth is expected to decelerate.
- **On trade policy, the MPC expects increased uncertainty surrounding the U.S. tariffs.** In the near term, U.S. tariffs are likely to ease modestly, though the U.S. administration may invoke authorities under Sec. 232 (national security-related products) and Sec. 301 (unfair international trade practices) to raise tariffs again. **The FY2027 budget delay risk has diminished**, given improving prospects for government formation.
- **Inflation faces increased downside risks**, driven by both lower energy prices and government cost-of-living subsidy measures. Headline inflation is projected to return to the lower bound of the target range in H2/2027, later than previously assessed in H1/2027. In addition, demand-side inflation pressure remain limited, in line with an economy growing below its potential.

## **SMEs are facing tight financial conditions, both in terms of access to credit and the appreciation of the Thai baht.**

- **SMEs continue to face high financial costs, while credit has been contracting persistently.** The BOT finds that despite cumulative policy rate cuts of 125 bps, new loan rates for micro-SMEs have actually risen by 150 bps over the past 15 months. This reflects rising credit risk among small businesses and tighter bank lending standards.

- **Baht appreciation has further tightened financial conditions for exporters** through FX conversion losses. A BOT analysis finds that exporting SMEs in exchange rate-sensitive sectors — such as agriculture, agro-processing, and textiles and garments — saw a significant profit decline in 2025 during the baht appreciation episode.

## The MPC views the policy rate at 1% as “sufficient” to support the economy under limited policy space.

- **The MPC assesses that a policy rate of 1% is sufficiently accommodative, consistent with the economic outlook and the need to preserve policy space.** The effective lower bound remains 0.50% — equivalent to the COVID-era floor — leaving 50 bps of conventional space in reserve for severe downside scenarios.
- **The MPC will monitor risks to financial stability in a low-interest rate environment.** In this meeting, the committee discussed two key issues as follows:
  - **Search-for-yield behavior** stemming from low deposit interest rates: investments in riskier assets have increased since the first rate cut in October 2024. However, the MPC does not view this as concerning at present.
  - **Credit misallocation:** ultra-low rates could increase the number of zombie firms through lower financing costs, or encourage large firms to channel borrowing into low-productivity activities. Nevertheless, such risks may not yet be a major concern, given the continued caution of financial institutions.
- **The MPC emphasized that Thailand’s structurally low growth cannot be addressed by monetary policy alone.** A low interest rate is only one tool to facilitate the economy’s adjustment toward stronger growth. Economic policies to enhance competitiveness, along with targeted financial measures, will be critically important.

## IMPLICATIONS

### SCB EIC expects the MPC to hold the rate at 1% as long as the economy does not deteriorate beyond the current forecast

- **At 1%, the real policy rate is approaching zero** — close to its historical average and a moderately accommodative level that still preserves medium-term financial stability
- **Compared to the non-crisis easing cycle of 2012 (Figure 1), the current easing cycle has already moved at a relatively fast pace.**
  - **The factor prompting the MPC’s first rate cut in the current easing cycle—from 2.5% to 2.25%—was its assessment that Thailand’s growth potential had declined significantly compared with the pre-COVID-19 level.** The MPC therefore recalibrated the policy rate downward to align with this lower potential growth. In addition,

Thai households and SMEs remained highly fragile. Meanwhile, pressures from U.S. tariff barriers emerged only after the easing cycle had already begun.

- **The current easing cycle therefore represents a gradual relaxation of financial conditions in line with Thailand’s economic context.** The current weakness is characterized by domestic fragilities and external pressures from tariffs and geopolitics rather than an acute demand collapse during the COVID crisis, meaning rates may not need to reach the crisis level.
- **The emphasis on structural reform policies and targeted financial measures may signal that the MPC has, to a considerable extent, already utilized the interest rate tool.** Further continuous rate cuts may not materially resolve Thailand’s economic challenges and could affect the effectiveness of monetary policy transmission. Meanwhile, the BOT is increasingly coordinating with the government to address Thailand’s economic issues, through targeted financial measures aimed at supporting households (Figure 2) and SMEs (Figure 3).

Regarding the monetary policy outlook, SCB EIC assesses that the policy rate will remain at 1.0% for some time. Further cuts remain possible, but only if the economy undershoots the current forecast — in which case the priority would be to reduce financial costs, alleviate debt burdens, and push inflation back toward the target band. At the same time, greater emphasis will be placed on targeted financial measures for vulnerable sectors—namely households and SMEs—in addressing Thailand’s economic challenges.

**Figure 1: Thailand’s current easing cycle has proceeded at a relatively faster pace compared with the 2012 easing cycle.**



Note: Inflation expectations based on Bloomberg Average

Source: SCB EIC analysis based on data from Bank of Thailand (BOT), CEIC, and Bloomberg

**Figure 2: Developments in household debt relief measures.**

Dec24	Jun25	Sep25	Jan26
Sustainable debt resolution measures	"You Fight, We Help" Phase 1	"You Fight, We Help" Phase 2	Close debts quickly and move forward
<ul style="list-style-type: none"> <li>Pre- and post-NPL debt restructuring</li> <li>Resolution of chronic debt</li> <li>Fair interest rate measures</li> </ul>	<b>Direct payment, asset retention measure</b> <ul style="list-style-type: none"> <li>Housing/car loans classified as NPLs for less than 1 year, or performing loans that have been restructured since 2022</li> <li>Ineligible to apply for new loans in the first year</li> </ul> <b>Debt settlement measure for outstanding balances of less than THB 5,000 per account</b>	<b>Direct payment, asset retention measure</b> <ul style="list-style-type: none"> <li>Housing/car loans classified as NPLs for <b>more than 1 year</b>, or performing loans that have been restructured since 2022</li> <li>Ineligible <b>to apply for new consumer loans</b> in the first year, except for occupational loans</li> </ul> <b>Debt settlement measure for outstanding</b> Outstanding debt of <b>less than THB 10,000 per account (unsecured) and less than THB 30,000 per account (secured)</b>	<ul style="list-style-type: none"> <li>Unsecured NPLs of <b>less than THB 100,000 per account</b></li> <li>Settle bad debts and clear credit records</li> </ul>

ที่มา : การวิเคราะห์ของ SCB EIC จากข้อมูล Bank of Thailand (BOT)

**Figure 3: Examples of measures to enhance SMEs' access to credit.**

Project / Agency	Policy approach
<b>SME credit guarantee scheme</b>	
TCG Quick Big Win TCG	<b>Three programs</b> (credit limit: Go Big ≤ THB 40 million / Smart Win ≤ THB 1 million / Quick LG ≤ THB 100 million) <b>Fee exemption for the first 3 years</b> ; in years 4–7, fees are charged based on risk-based pricing (starting at 1% per year), with a 7-year guarantee period.
SMEs Credit Boost BOT + TCG + TBA	The FIDF fund shares part of the credit risk in place of banks, applicable only to <b>new credit</b> , covering 7 Reinvent Thailand industries, with a limit of ≤ THB 100 million per borrower, and a 7-year guarantee period (operationally administered by TCG).
PGS 11 TCG   Extension	Extension of the Portfolio Guarantee Scheme Phase 11, utilizing the remaining credit limit from the previous year.
<b>Soft Loans / Low-interest loans</b>	
GSB Boost Up: Revitalizing Thai Businesses GSB	The Government Savings Bank (GSB) provides loans to the Bank for Agriculture and Agricultural Cooperatives (BAAC) at an interest rate of 0.01% per year. BAAC then on-lends to SMEs at an interest rate of ≤ 3.5% per year during the first two years. The program comprises four schemes: Mitigation / Reinvent / Transformation / Tourism.
Empower SME + Beyond: Elevating SMEs SME D Bank	<b>Fixed interest rate of 3% for years 1–3</b> ; loan tenor of 10 years; 12-month principal grace period Empower SME: Revenue ≤ THB 2 million per year, loan limit ≤ THB 1.5 million per borrower   Beyond: Revenue ≥ THB 2 million per year, loan limit ≤ THB 15 million per borrower

Source: Compiled by SCB EIC based on data from TCG, BOT, and the Ministry of Finance.

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